

**Systemx Corporation**  
**(Formerly Sysware Corporation)**

**Financial Statements for the  
Years Ended December 31, 2007 and 2006 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
Systex Corporation  
(Formerly Sysware Corporation)

We have audited the accompanying balance sheets of Systex Corporation (the "Corporation", formerly Sysware Corporation) as of December 31, 2007 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. Among those investments which are reflected in the accompanying financial statements using the equity method of accounting, we did not audit the financial statements as of and for the year ended December 31, 2007 of Enrichment I Venture Capital Corporation, Global Fortune Net Technology Corporation, Sysplus Corporation, Systex Infopro Co., Ltd.; Hanmore Investment Corporation's investee company accounted for using the equity method: Enrichment I Venture Capital Corporation; Ching Pu Investment Corporation's investee companies accounted for using the equity method: SysView Corporation, Sysplus Corporation, Syscape Technology Corporation, and Mondex Taiwan Inc.; Kimo.com (BVI) Corporation's investee company accounted for using the equity method: Systex Information (H.K.) Ltd.; and Systex Capital Group Incorporation's investee companies using the equity method: AFE Solutions Limited, AP Networks Ltd. and Silicon Valley Equity Fund-II, L.P. The aggregate carrying values of these equity-method investments as of December 31, 2007, were NT\$777,993 thousand or about 4.54% of the Corporation's total assets, and the equity in their net income amounted to NT\$29,753 thousand or about 3.26% of the Corporation's income before income tax for the year ended December 31, 2007. The financial statements of such investees were audited by other auditors whose reports have been furnished to us and, our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Systex Corporation (formerly Sysware Corporation) as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Notes 1 and 2 to the financial statements, Sysware Corporation merged with Systex Corporation on January 1, 2007. Systex Corporation is dissolved after the completion of the merger, Sysware Corporation is the surviving company and is renamed as Systex Corporation. The merger is completed under reverse merger accounting. As a result, the financial statements for the year ended December 31, 2007, referred to in the first paragraph are prepared by treating Systex Corporation as the acquirer entity and Sysware Corporation as the acquired entity.

As stated in Note 1 to the financial statements, the attached pro forma merged balance sheet of Sysware Corporation and Systex Corporation as of December 31, 2006, and the pro forma merged income statement for the year then ended were not audited according to the rules and standards stated in the second paragraph. The sole purpose of the attachments is to provide means of comparison.

As stated in Note 3 to the financial statements, effective January 1, 2006, the Corporation adopted the newly issued Statement of Financial Accounting Standards (SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and other related revisions of previously issued SFASs. The results in 2006 of these accounting changes were an increase of NT\$474 thousand in the available-for-sale financial assets - current, an increase of NT\$578,137 thousand in investments accounted for by the equity method and an increase of NT\$578,611 thousand in unrealized gain on financial instruments in stockholders' equity.

We have also audited the consolidated financial statements of Systex Corporation and its subsidiaries as of and for the year ended December 31, 2007, and have expressed a modified unqualified opinion thereon in our report (not presented herewith) dated March 7, 2008.

March 7, 2008

Notice to Readers

*The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**BALANCE SHEETS**  
**DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 195,616	1	\$ 72,612	2	Short-term loans (Note 16)	\$ -	-	\$ 140,000	3
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	1,223,426	7	177,833	4	Commercial paper issued, net (Note 17)	-	-	59,884	1
Available-for-sale financial assets - current (Notes 2, 3 and 6)	3,839	-	474,746	11	Notes payable	7,323	-	116,066	3
Notes receivable, net (Notes 2 and 7)	213,930	1	93,329	2	Accounts payable	1,623,562	10	297,403	7
Accounts receivable, net (Notes 2 and 7)	1,532,738	9	650,748	16	Payables to related parties (Note 26)	24,238	-	19,995	1
Lease receivables, net (Notes 2 and 8)	6,660	-	1,367	-	Income tax payable (Notes 2 and 21)	34,901	-	24,246	1
Receivables from related parties (Note 26)	79,873	1	69,366	2	Accrued expenses	377,459	2	130,904	3
Other receivables (Note 10)	244,043	2	22,189	1	Other payables	151,724	1	3,259	-
Inventories, net (Notes 2 and 9)	912,523	5	227,326	5	Receipts in advance	155,845	1	85,734	2
Prepayments	232,170	1	19,101	-	Other current liabilities	64,727	-	30,669	1
Deferred income tax assets - current (Notes 2 and 21)	98,304	1	22,835	1					
Pledged time deposits - current (Note 27)	182,823	1	13,835	-	Total current liabilities	2,439,779	14	908,160	22
Refundable deposits - current (Note 28)	154,486	1	22,786	1					
Other current assets	12,922	-	6,530	-	<b>OTHER LIABILITIES</b>				
Total current assets	5,093,353	30	1,874,603	45	Accrued pension cost (Notes 2 and 18)	96,853	1	3,126	-
					Guarantee deposits received	8,602	-	124	-
<b>LONG-TERM INVESTMENTS</b>					Credit balance of long-term investments accounted for by the equity method (Notes 2, 3 and 11)	-	-	163	-
Available-for-sale financial assets - noncurrent (Notes 2, 3 and 6)	9,701	-	-	-					
Financial assets carried at cost - noncurrent (Notes 2 and 10)	579,444	3	28,989	1	Total other liabilities	105,455	1	3,413	-
Investments accounted for by the equity method (Notes 2, 3 and 11)	9,010,228	53	1,920,196	46					
Total long-term investments	9,599,373	56	1,949,185	47	Total liabilities	2,545,234	15	911,573	22
					<b>STOCKHOLDERS' EQUITY (Notes 2, 3, 19 and 20)</b>				
<b>PROPERTY AND EQUIPMENT (Notes 2, 12 and 26)</b>					Capital stock - par value NTS10, authorized - 400,000 thousand shares; issued and outstanding - 320,178 thousand shares in 2007 and 83,231 thousand shares in 2006	3,201,778	18	832,307	20
Cost					Advance receipts for common stock - 81 thousand shares in 2007	810	-	-	-
Land	755,369	4	37,261	1	Total capital stock	3,202,588	18	832,307	20
Buildings	1,118,400	6	34,109	1	Capital surplus				
Computer equipment	484,708	3	177,377	4	Additional paid-in capital	9,317,540	54	875,408	21
Transportation equipment	20,735	-	5,884	-	Treasury stock transactions	238,134	2	25,702	1
Leasehold improvements	133,109	1	104,484	3	Gain on sale of property and equipment	4,493	-	-	-
Other equipment	98,560	1	36,351	1	Donations	544	-	-	-
Total cost	2,610,881	15	395,466	10	Long-term investments	-	-	50,415	1
Less: Accumulated depreciation	(777,891)	(4)	(197,084)	(5)	Total capital surplus	9,560,711	56	951,525	23
Prepayment for equipment	5,220	-	-	-	Retained earnings				
Net property and equipment	1,838,210	11	198,382	5	Legal reserve	193,833	1	163,221	4
					Special reserve	-	-	70,929	2
<b>INTANGIBLE ASSETS</b>					Unappropriated earnings	1,500,116	9	934,949	22
Computer software (Note 2)	65,324	-	15,232	-	Total retained earnings	1,693,949	10	1,169,099	28
Goodwill (Notes 2 and 13)	39,107	-	37,177	1	Other equity				
Deferred pension cost (Notes 2 and 18)	9,219	-	-	-	Cumulative translation adjustments	(48,480)	-	(76,558)	(2)
Total intangible assets	113,650	-	52,409	1	Unrealized gain on financial instruments	1,017,909	6	364,452	9
					Unrealized revaluation increment	56	-	-	-
<b>OTHER ASSETS</b>					Treasury stock - 24,794 thousand shares in 2007	(834,424)	(5)	-	-
Assets leased to others (Notes 2 and 14)	121,943	1	6,677	-	Total other equity	135,061	1	287,894	7
Assets for disposal, net (Notes 2 and 15)	17,998	-	-	-	Total stockholders' equity	14,592,309	85	3,240,825	78
Refundable deposits - noncurrent (Note 28)	45,603	-	53,132	1					
Deferred charges, net (Note 2)	21,951	-	12,387	1					
Long-term lease receivables, net (Notes 2 and 8)	8,888	-	895	-					
Deferred income tax assets - noncurrent (Notes 2 and 21)	180,024	1	4,728	-					
Pledged time deposits - noncurrent (Note 27)	96,550	1	-	-					
Total other assets	492,957	3	77,819	2					
<b>TOTAL</b>	<b>\$ 17,137,543</b>	<b>100</b>	<b>\$ 4,152,398</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 17,137,543</b>	<b>100</b>	<b>\$ 4,152,398</b>	<b>100</b>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 7, 2008)

**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 26)				
Sales	\$ 5,648,103	65	\$ 2,430,887	70
Less: Sales returns and allowances	<u>30,613</u>	-	<u>20,151</u>	<u>1</u>
Net sales	5,617,490	65	2,410,736	69
Service income	2,987,550	34	1,005,679	29
Others	<u>72,194</u>	<u>1</u>	<u>62,993</u>	<u>2</u>
Total operating revenues	<u>8,677,234</u>	<u>100</u>	<u>3,479,408</u>	<u>100</u>
OPERATING COSTS (Notes 2, 22 and 26)				
Cost of goods sold	4,943,291	57	1,961,554	56
Service cost	1,256,601	15	577,175	17
Others	<u>13,167</u>	-	<u>3,714</u>	-
Total operating costs	<u>6,213,059</u>	<u>72</u>	<u>2,542,443</u>	<u>73</u>
GROSS PROFIT	<u>2,464,175</u>	<u>28</u>	<u>936,965</u>	<u>27</u>
OPERATING EXPENSES (Notes 22 and 26)				
Selling expenses	1,519,129	17	609,614	17
General and administrative expenses	335,088	4	103,842	3
Research and development expenses	<u>255,110</u>	<u>3</u>	<u>62,798</u>	<u>2</u>
Total operating expenses	<u>2,109,327</u>	<u>24</u>	<u>776,254</u>	<u>22</u>
OPERATING INCOME	<u>354,848</u>	<u>4</u>	<u>160,711</u>	<u>5</u>
NON-OPERATING INCOME AND GAINS				
Interest income	6,381	-	1,389	-
Investment income recognized under the equity method, net (Notes 2 and 11)	334,096	4	170,872	5
Dividend income	19,713	-	3,747	-
Gain on sale of investments, net (Notes 2 and 11)	88,210	1	5,683	-
Exchange gains, net (Note 2)	816	-	8,259	-
Reversal of allowance for doubtful accounts (Note 23)	102,422	1	-	-
Others (Notes 23 and 26)	<u>97,092</u>	<u>1</u>	<u>10,012</u>	<u>1</u>
Total non-operating income and gains	<u>648,730</u>	<u>7</u>	<u>199,962</u>	<u>6</u>

(Continued)

**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2007</u>		<u>2006</u>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>NON-OPERATING EXPENSES AND LOSSES</b>				
Interest expense (Note 26)	\$ 577	-	\$ 4,633	-
Provision for losses on inventories (Notes 2 and 9)	14,646	-	2,505	-
Impairment loss on financial assets carried at cost (Notes 2 and 10)	25,295	-	544	-
Valuation loss on financial assets, net (Notes 2 and 5)	35,201	1	2,794	-
Others	<u>15,020</u>	<u>-</u>	<u>7,352</u>	<u>1</u>
Total non-operating expenses and losses	<u>90,739</u>	<u>1</u>	<u>17,828</u>	<u>1</u>
INCOME BEFORE INCOME TAX EXPENSE	912,839	10	342,845	10
INCOME TAX EXPENSE (Notes 2 and 21)	<u>(22,566)</u>	<u>-</u>	<u>(36,721)</u>	<u>(1)</u>
NET INCOME BEFORE EXTRAORDINARY GAINS	890,273	10	306,124	9
EXTRAORDINARY GAINS, NET OF TAX EXPENSE (Notes 2 and 11)	<u>2,128</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME	<u>\$ 892,401</u>	<u>10</u>	<u>\$ 306,124</u>	<u>9</u>
	<u>2007</u>		<u>2006</u>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
<b>EARNINGS PER SHARE (Note 24)</b>				
Basic earnings per share				
Net income before extraordinary gains	\$ 3.09	\$ 3.01	\$ 4.12	\$ 3.68
Extraordinary gains, net of tax	<u>0.01</u>	<u>0.01</u>	<u>-</u>	<u>-</u>
	<u>\$ 3.10</u>	<u>\$ 3.02</u>	<u>\$ 4.12</u>	<u>\$ 3.68</u>

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# SYSTEX CORPORATION

(Formerly Sysware Corporation)

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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Pro forma information assuming the Corporation's shares held by its subsidiaries were accounted for as an investment instead of treasury stock is as follows (Notes 2, 20 and 24):

	<u>2007</u>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>
<b>BASIC EARNINGS PER SHARE</b>		
Net income before extraordinary gains	\$ 2.93	\$ 2.86
Extraordinary gains, net of tax	<u>0.01</u>	<u>0.01</u>
	<u>\$ 2.94</u>	<u>\$ 2.87</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 7, 2008)

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**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock		Advance Receipts for Common Stock (Note 19)	Capital Surplus (Notes 2 and 19)	Retained Earnings (Notes 2 and 19)				Other Equity				Total Stockholders' Equity
	Issued and Outstanding				Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments (Notes 2 and 19)	Unrealized Gain (Loss) on Financial Instruments (Notes 2, 3 and 19)	Unrealized Revaluation Increment	Treasury Stock (Notes 2 and 20)	
	Shares (Thousands)	Amount											
BALANCE, JANUARY 1, 2006	78,487	\$ 784,863	\$ -	\$ 986,793	\$ 131,520	\$ 120,480	\$ 827,753	\$ 1,079,753	\$ (70,929)	\$ -	\$ -	\$ -	\$ 2,780,480
Effect of first adoption of SFAS No. 34	-	-	-	-	-	-	-	-	-	578,611	-	-	578,611
Reversal of special reserve	-	-	-	-	-	(49,551)	49,551	-	-	-	-	-	-
Appropriations of 2005 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	31,701	-	(31,701)	-	-	-	-	-	-
Cash dividends - NTS\$2 per share	-	-	-	-	-	-	(156,974)	(156,974)	-	-	-	-	(156,974)
Stock dividends - 2.5%	1,962	19,622	-	-	-	-	(19,622)	(19,622)	-	-	-	-	-
Bonus to employees (including NTS\$8,200 thousand paid in stock)	820	8,200	-	-	-	-	(33,485)	(33,485)	-	-	-	-	(25,285)
Bonus to directors and supervisors	-	-	-	-	-	-	(6,697)	(6,697)	-	-	-	-	(6,697)
Issuance of common stock from capital surplus - 2.5%	1,962	19,622	-	(19,622)	-	-	-	-	-	-	-	-	-
Net income for the year ended December 31, 2006	-	-	-	-	-	-	306,124	306,124	-	-	-	-	306,124
Adjustments for capital surplus and retained earnings of equity-method investees	-	-	-	(15,646)	-	-	-	-	-	-	-	-	(15,646)
Change in translation adjustments on investments accounted for by the equity method	-	-	-	-	-	-	-	-	(5,629)	-	-	-	(5,629)
Equity in changes in investees' unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	(298,876)	-	-	(298,876)
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	84,717	-	-	84,717
BALANCE, DECEMBER 31, 2006	83,231	832,307	-	951,525	163,221	70,929	934,949	1,169,099	(76,558)	364,452	-	-	3,240,825
Issuance of stock from merger (Notes 1 and 19)	236,680	2,366,801	-	8,578,194	-	-	-	-	37,784	(282,324)	56	(834,424)	9,866,087
Reversal of special reserve	-	-	-	-	-	(70,929)	70,929	-	-	-	-	-	-
Appropriations of 2006 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	30,612	-	(30,612)	-	-	-	-	-	-
Cash dividends - NTS\$1 per share	-	-	-	-	-	-	(319,911)	(319,911)	-	-	-	-	(319,911)
Bonus to employees	-	-	-	-	-	-	(34,644)	(34,644)	-	-	-	-	(34,644)
Bonus to directors and supervisors	-	-	-	-	-	-	(6,929)	(6,929)	-	-	-	-	(6,929)
Issuance of stock from exercising employee stock options	267	2,670	810	6,194	-	-	-	-	-	-	-	-	9,674
Net income for the year ended December 31, 2007	-	-	-	-	-	-	892,401	892,401	-	-	-	-	892,401
Adjustments for capital surplus and retained earnings of equity-method investees	-	-	-	-	-	-	(6,067)	(6,067)	-	-	-	-	(6,067)
Change in translation adjustments on investments accounted for by the equity method	-	-	-	-	-	-	-	-	(9,706)	-	-	-	(9,706)
Equity in changes in investees' unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	945,487	-	-	945,487
Change in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(9,706)	-	-	(9,706)
Cash dividends received by subsidiaries from the Corporation	-	-	-	24,798	-	-	-	-	-	-	-	-	24,798
BALANCE, DECEMBER 31, 2007	<u>320,178</u>	<u>\$ 3,201,778</u>	<u>\$ 810</u>	<u>\$ 9,560,711</u>	<u>\$ 193,833</u>	<u>\$ -</u>	<u>\$ 1,500,116</u>	<u>\$ 1,693,949</u>	<u>\$ (48,480)</u>	<u>\$ 1,017,909</u>	<u>\$ 56</u>	<u>\$ (834,424)</u>	<u>\$ 14,592,309</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 7, 2008)



**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 892,401	\$ 306,124
Extraordinary gains, net of tax	(2,128)	-
Net income before extraordinary gains	890,273	306,124
Depreciation and amortization	123,313	60,569
Provision (reversal of allowance) for doubtful accounts	(93,474)	15,795
Interest amortization for commercial paper issued	116	-
Provision for loss on inventories	14,646	2,505
Gain on sale of available-for-sale-financial assets, net	(1,054)	(5,683)
Gain on sale of financial assets carried at cost, net	(12,236)	-
Gain on sale of investments accounted for by the equity method, net	(204)	-
Investment income recognized under the equity method, net of cash dividends received	(333,571)	(170,872)
Impairment loss on financial assets carried at cost	25,295	544
Loss (gain) on sale of property and equipment and assets leased to others	(6,438)	2,975
Valuation loss on financial assets, net	35,201	2,794
Deferred income tax	(26,115)	10,430
Net changes in operating assets and liabilities		
Notes receivable	(74,843)	(25,861)
Accounts receivable	15,648	38,310
Lease receivables (current and noncurrent)	(654)	1,755
Receivables from related parties	33,166	(20,421)
Other receivables	(67,210)	(11,832)
Inventories	(226,342)	97,066
Prepayments	50,680	(439)
Other current assets	(6,392)	(2,533)
Notes payable	(146,242)	113,898
Accounts payable	361,774	(341,333)
Payables to related parties	(5,697)	9,164
Income tax payable	10,655	13,899
Accrued expenses	(39,474)	(41,342)
Other payables	(12,494)	2,258
Receipts in advance	(4,813)	(1,572)
Other current liabilities	4,844	14,062
Deferred credits	(453)	-
Accrued pension cost	447	(3,376)
Net cash provided by operating activities	<u>508,352</u>	<u>66,884</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in financial assets at fair value through profit or loss	(68,026)	(180,627)
Acquisition of available-for-sale financial assets	-	(2,111,396)
Proceeds from disposal of available-for-sale financial assets	58,471	2,504,816

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**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars)

	<b>2007</b>	<b>2006</b>
Acquisition of financial assets carried at cost	\$ (119,700)	\$ -
Proceeds from disposal of financial assets carried at cost	31,052	-
Acquisition of investments accounted for by the equity method	(322,722)	(6,000)
Proceeds from disposal of investments accounted for by the equity method	16,444	-
Proceeds from return of capital by investees	445,574	1,827
Acquisition of property and equipment and assets leased to others	(77,339)	(50,744)
Proceeds from disposal of property and equipment and assets leased to others	69,153	696
Acquisition of computer software	(50,880)	(5,353)
Increase in deferred charges	(9,501)	(1,548)
Decrease (increase) in pledged time deposits	(4,590)	5,664
Decrease in refundable deposits	11,970	49,132
Net cash received from merger	<u>72,612</u>	<u>-</u>
Net cash provided by investing activities	<u>52,518</u>	<u>206,467</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term loans	(140,000)	(122,840)
Increase (decrease) in commercial paper issued	(60,000)	59,884
Decrease in guarantee deposits received	(1,006)	(309)
Proceeds from exercise of employee stock options	9,674	-
Cash dividends	(319,911)	(156,974)
Cash bonus paid to directors and supervisors	(6,929)	(6,697)
Cash bonus paid to employees	<u>(34,644)</u>	<u>(25,285)</u>
Net cash used in financing activities	<u>(552,816)</u>	<u>(252,221)</u>
<b>NET INCREASE IN CASH</b>	8,054	21,130
<b>CASH, BEGINNING OF YEAR</b>	<u>187,562</u>	<u>51,482</u>
<b>CASH, END OF YEAR</b>	<u>\$ 195,616</u>	<u>\$ 72,612</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 461</u>	<u>\$ 5,252</u>
Income tax paid	<u>\$ 38,027</u>	<u>\$ 12,391</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Receivable from return of capital by investees (included in other receivables)	<u>\$ 111</u>	<u>\$ -</u>
Payable for acquisition of investments accounted for by the equity method	<u>\$ 10,940</u>	<u>\$ -</u>

(Continued)

**SYSTEX CORPORATION**  
**(Formerly Sysware Corporation)**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
**(In Thousands of New Taiwan Dollars)**

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As stated in Note 2 to the financial statements, the Corporation has merged with Systex Corporation (Systex) under reverse merger accounting. Upon merger, the assets and liabilities acquired from Sysware Corporation (treated as the acquired entity) are listed as follows:

Assets

Cash	\$ 72,612
Financial assets at fair value through profit or loss - current	177,833
Available-for-sale financial assets - current	474,746
Receivables (including receivables from related parties), net	814,810
Inventories, net	227,326
Prepayments and other current assets	107,276
Financial assets carried at cost - noncurrent	28,989
Investments accounted for by the equity method	1,920,196
Property and equipments, net	198,382
Goodwill (including goodwill from the merger)	39,107
Other assets, net	93,051

Liabilities

Short-term loans and commercial paper issued	(199,884)
Payables (including payables to related parties), net	(433,464)
Accrued expenses and other current liabilities	(275,099)
Accrued pension cost	<u>(3,126)</u>
Net assets	3,242,755
Change in the par value of Systex capital	7,126,763
Write-off of Systex stocks held by the Corporation for merger	(369,330)
Write-off of Corporation's stocks held by Systex for merger	(154,288)
Issuance of stock on merger	<u>(2,366,801)</u>
Capital surplus resulted from merger, net	<u>\$7,479,099</u>

(Continued)

# SYSTEX CORPORATION

(Formerly Sysware Corporation)

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

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The Corporation acquired 88.2% equity interest of Megatime Tech Corporation in 2007. The fair value of the acquired assets and liabilities are summarized as follows:

Cash	\$ 152,137
Notes receivable and accounts receivable, net	8,590
Inventories, net	331
Other current assets	706
Property and equipment, net	158,277
Other assets	21,866
Notes payable and accounts payable	(1,283)
Income tax payable	(4,246)
Receipts in advance	(22,000)
Accrued expenses and other current liabilities	(9,235)
Other liabilities (including accrued pension cost)	<u>(5,050)</u>
	300,093
Percentage of ownership acquired	<u>88.2%</u>
	264,682
Goodwill	<u>36,921</u>
Cash paid by the Corporation for the acquisition of the equity interest in Megatime Tech Corporation	<u>\$ 301,603</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 7, 2008)

(Concluded)

# **SYSTEX CORPORATION**

**(Formerly Sysware Corporation)**

## **NOTES TO FINANCIAL STATEMENTS**

### **YEARS ENDED DECEMBER 31, 2007 AND 2006**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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#### **1. ORGANIZATION AND OPERATIONS**

System Corporation (formerly Sysware Corporation, the "Corporation") was incorporated on January 7, 1997. The Corporation provides advanced software and information-based solutions, sells and leases computer hardware and software, and renders related services.

The shares of the Corporation have been traded on the Taiwan over-the-counter securities exchange since January 6, 2003.

System Corporation (System) was incorporated in September 1976. System provided sales, leases, and related services for software, computers, mobile phones, and other-related equipments.

To integrate resources, expand business and enhance competitiveness of the Corporation, the stockholders resolved on June 15, 2006 to merge with System. The effective date was January 1, 2007 and every 3.0105 shares of System (the dissolved corporation) were swapped for one share of the Corporation. After the merger, the Corporation took over all the rights and obligations of System. The Corporation issued 236,680 thousand common shares for merger, all the stocks that were mutually owned by the two companies were written off. The merger had been approved by the relevant government agencies, and the Corporation had completed the required registration with the authority-in-charge.

The pro forma operating results assuming that the merger had been completed on January 1, 2006, were presented in the attached Table 2 and Table 3. However, the attachments were not audited, and their sole purpose is to serve as means of comparison.

In order to integrate resources and to increase overall competitiveness, the Board of Directors decided to merge Megatime Tech Corporation, which is 88.2% owned by the Corporation. The effective date is January 1, 2008, and the Corporation offered a price of NT\$18 per share (a total of NT\$41,715 thousand) to purchase all the stocks (total of 2,317,496 shares) owned by other stockholders of Megatime Tech Corporation. After the merger, the Corporation will take over all the rights and obligations of Megatime Tech Corporation. The merger has been approved by the relevant authority-in-charge on February 27, 2008.

As of December 31, 2007 and 2006, the Corporation had 1,791 and 661 employees, respectively.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Presentation**

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB) for their oversight purposes.

The Corporation prepares its financial statements in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines, law and principles, the Corporation is required to make reasonable estimates and assumptions that affect the amounts of allowance for doubtful accounts; provision for loss on inventories; impairment losses on financial assets carried at cost and investments accounted for by the equity method; depreciation and impairment loss on property and equipment; assets leased to others; and assets for disposal; amortization and impairment loss on computer software and deferred charges; valuation of accrued pension cost; income tax; loss on breach of contracts; loss on pending or threatened litigations; etc. Actual results could differ from these estimates.

Significant accounting policies are summarized as follows:

### **Merger**

The Corporation has merged with Systex Corporation (Systex) under reverse merger accounting. Therefore, the financial statements for the year ended December 31, 2007 are prepared by treating Systex Corporation as the acquirer entity and Sysware Corporation as the acquired entity.

Since Systex is the parent company of the Corporation, the merger is considered as restructuring of entities under common control. Thus, the 18.5% and the 17.3% of the Corporation's shares held respectively by Systex and Ching Pu Investment Corporation (100% owned subsidiary of Systex) should be recorded at the Corporation's carrying amount (reduced for asset impairment, if any). The remaining issued shares held by minority interest should be accounted for based on the ROC Statement of Financial Accounting Standards No. 25 "Business Combinations", and the net assets acquired from minority interest should be recorded at fair value of the net assets net of par value of the shares issued for merger and other related cost, and recorded as capital surplus.

### **Current and Noncurrent Assets and Liabilities**

Current assets include unrestricted cash and those assets held primarily for trading purpose or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purpose or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

### **Financial Instruments at Fair Value through Profit or Loss**

Financial instruments at fair value through profit or loss (FVTPL) are financial assets held for trading, and on initial recognition, are measured at fair value, including the acquisition costs. Subsequent changes in fair value are recognized as current gain or loss. Cash dividends received are accounted for as investment income. On derecognition of a financial asset, the difference between its carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. A regular purchase or sale of financial assets is accounted for using trade date basis.

On the balance sheet date, the fair values of listed securities are measured at their closing prices and those of open-ended mutual funds, at their net asset values.

### **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized using trade date accounting.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

### **Revenue Recognition, Accounts Receivable, and Allowance for Doubtful Accounts**

Revenue from sales of hardware, software, and mobile phones are recognized when the items, and the risks and rewards associated with the items are transferred to the customers. Revenue from integrated hardware and software solutions are generally recognized incrementally after delivery, installation and testing or on customers' acceptance, depending on contract terms.

Service income is generally recognized when service is rendered or is recognized over the term of the service contract under the straight-line method or the percentage-of-completion method. Contract profit for the current period is the difference between the cumulative profit at the end of the current period and the cumulative profit recognized in the prior periods. However, if the cumulative profit recognized in prior periods is greater than the cumulative profit calculated using the percentage of completion method at the end of the current period, the excess should be recorded as a loss in the current period.

Other operating revenue mainly consists of rental revenue on operating leases of computer equipment and is recognized over the lease terms.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Corporation and the customers for goods sold or services rendered in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, hence fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of prior years' bad debt amounts, economic factors, and the aging and collectibility of receivables.

### **Leases**

The fair value of computers leased under capital leases and implicit interest thereon are recorded as lease receivables. This interest is deferred and recognized as other operating revenue over the term of the lease.

Assets leased to others under operating leases (assets leased to others) are stated at cost less accumulated depreciation and impairment. The depreciation is computed using averaged years of usage: building over 60 years and computers leased out over 3 years. Rental revenue is recognized currently. Upon sale or disposal of these properties, the related cost, accumulated depreciation and impairment are removed from the accounts, and any gain or loss is credited or charged to income. At year-end, any gain generated before 2000 less applicable income tax is transferred to capital surplus.

### **Inventories**

Inventories are stated at the lower of cost (monthly weighted average) or market value. Market value is the net realizable value of merchandise and the replacement cost of maintenance parts. Slow-moving (over 180 days without any movement), obsolete or unusable inventories are provided with allowance for losses at their net realizable values.

## **Financial Assets Carried at Cost**

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

When the stocks are sold, the costs are computed under the moving average method.

## **Investments Accounted for by the Equity Method**

Investments in which the Corporation holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method. These investments are initially stated at cost and subsequently adjusted for the Corporation's proportionate share in the net income or net loss and cumulative translation adjustment. Cash dividends received are accounted for as a reduction of the carrying value of the investments. When the investee recognizes unrealized gains or losses on financial instruments, the Corporation also records its equity in the investee's unrealized gains or losses as an adjustment to stockholders' equity.

Prior to January 1, 2006, the difference between the acquisition cost and the Corporation's proportionate share in the investee's equity was amortized by the straight-line method over 5 years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard ("SFAS") No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is analyzed, and the acquisition cost in excess of the Corporation's share of the fair value of the identifiable net assets acquired is recognized as goodwill. Such goodwill is not amortized but instead is tested for impairment annually or whenever there are indications that the investments are impaired. The excess of the Corporation's share of the fair value of the net identifiable assets acquired over the cost of acquisition is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining years.

When the Corporation subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, or the investee's appropriation of stock bonus to employees, or the investee's reacquisition of its shares as treasury stock or sale of its treasury stock, the Corporation records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings. Upon the sale of investments accounted for by the equity method, any capital surplus or other equity adjustment is charged to current income proportionately.

When the Corporation's share in losses of an investee over which the Corporation has control exceeds its investment in the investee, unless the other shareholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Corporation has to bear all of the losses in excess of the capital contributed by shareholders of the investee. If the investee subsequently reports profits, such profits are first attributed to the Corporation to the extent of the excess losses previously borne by the Corporation.

When the Corporation and its investee maintain investment interest in each other, treasury stock method is used to recognize gains and losses.



If a subsidiary owns the stocks of its parent company, it should be considered as treasury stock. The cash dividend released by the Corporation to its subsidiaries is accounted for by writing-off its investment income and adjusting the capital surplus arising from treasury stock transactions.

Any unrealized profits and losses resulting from the transactions between investee companies accounted for using the equity method are eliminated to the extent of the Corporation's interest in the investee company which generates such profits and losses, if both of the investee companies are under common control by the Corporation; otherwise, the unrealized profits and losses are eliminated to the extent of the Corporation's multiplied interest in both of the investee companies. In addition, unrealized profits and losses resulting from upstream transactions should be eliminated to the extent of the Corporation's interest in the investee company.

Stock dividends received are not recorded as investment income. They are recognized only as increases in the number of shares held.

### **Property and Equipment and Assets for Disposal**

Property and equipment are stated at cost less accumulated depreciation. Major additions, replacements and betterments are capitalized, while maintenance and repairs are expensed currently.

Assets for disposal are stated at the lower of total carrying amount or net realizable value. Moreover, based on the newly issued pronouncement by the Accounting Research and Development Foundation in the ROC, these assets will continue to be depreciated.

Depreciation is provided on a straight-line basis over the estimated useful lives as follows: buildings, 30 to 60 years; computer equipment, 2 to 8 years; transportation equipment, 2 to 5 years; lease improvement, 2 to 8 years; other equipment, 2 to 8 years. When property and equipment have reached their estimated service life but are still in use, depreciation is provided over their reestimated service lives.

Upon sale or disposal of property and equipment and assets for disposal, the related cost and accumulated depreciation and accumulated impairment are removed from the accounts, and any gain or loss is credited or charged to income. At year-end, any gain generated before 2000 less applicable income tax is transferred to capital surplus.

### **Intangible Assets**

Computer software is initially recorded at cost and is amortized using the straight-line basis over three to five years.

Goodwill is the difference between the acquisition cost of the Corporation's equity in the fair value of the subsidiaries' net assets. Before January 1, 2006, goodwill was amortized by the straight-line method over five years. Effective January 1, 2006, based on the newly revised SFAS, goodwill is no longer amortized and instead tested for impairment annually. If an event indicates that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. However, the reversal of impairment loss on goodwill is not allowed.

### **Deferred Charges**

Deferred charges, mainly the costs of telephone wire installation and software purchases, are amortized on the straight-line basis over 3 to 5 years.

## **Impairment of Assets**

If the recoverable amount of an asset (mainly property and equipment, intangible assets, assets for disposal, assets leased to others, deferred charges, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings. For investees over whom the Corporation exercises significant influence but not control, the recoverable amount is calculated based on investees' individual investment value. For investees over whom the Corporation has control, the recoverable amount is by taking the consolidated financial statements as a whole.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU(s)") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

## **Employee Stock Options**

Employee stock option plans with a grant or amendment date on or after January 1, 2004 are accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Corporation adopted the intrinsic value method, under which compensation cost is recognized on a straight-line basis over the vesting period.

When employees exercise the stock options, the part in excess of the par value of the common shares issued is recorded as capital surplus.

## **Pension**

Under the defined benefit pension plan, pension cost is recognized on the basis of actuarial calculation. Unrecognized net transition obligation and the unrecognized net actuarial gain or loss are amortized using the straight-line method over the average remaining service years of employees. Under the defined contribution plan, the required monthly contributions to employees' individual pension accounts are recognized as pension cost.

Under the defined benefit pension plan, the minimum amount of pension liability should be recognized in the balance sheet. If the accrued pension liability already shown in the book is less than the minimum amount, the difference should be recognized as additional pension liability. If the additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net assets or net benefit obligation, the deferred pension cost account should be charged. Deferred pension cost is classified as an intangible asset. If the additional liability exceeds this sum, the excess should be charged to the net loss not yet recognized as net pension cost account, which is classified as a reduction of stockholders' equity.

When the Corporation curtails or settles the defined benefit plan, gains or losses on curtailment or settlement are recognized currently.

## **Deferred Income**

Profits from transactions with less than majority-owned equity-accounted investees are deferred in proportion to the Corporation's equity interest, and are recognized as income when realized. The entire profits from transactions with majority-owned subsidiaries are deferred and are recognized as income when realized.

## **Treasury Stock**

The Corporation's stock held by its subsidiaries is treated as treasury stock and reclassified from long-term stock investment into treasury stock. The carrying value (available-for-sale financial assets) is multiplied by the Corporation's proportionate share as of the date when the Corporation acquired controlling interest in the subsidiary.

## **Income Tax**

The Corporation applies intra-year and inter-year allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

## **Foreign-currency Transactions**

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Corporation. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

The exchange rates used for currency translation were the average of buying and selling rates quoted by major correspondent banks.

### **Reclassifications**

Certain accounts for 2006 have been reclassified to conform to 2007 classifications.

### **3. ACCOUNTING CHANGES**

On January 1, 2006, the Corporation adopted the newly released Statement of Financial Accounting Standards (SFAS) No. 34 "Accounting for Financial Instruments" and No. 36 "Disclosure and Presentation for Financial Instruments" and related revisions of previously released SFASs.

The Corporation recategorized its financial assets and liabilities upon making the accounting changes. The adjustments made to the carrying amounts of the financial instruments categorized as available-for-sale financial assets were recognized as adjustments to stockholders' equity.

The adjustment based on the accounting changes were as follows:

	<b>Recognized as Adjustments of Stockholders' Equity (After Tax)</b>
Available-for-sale financial assets	\$ 474
Investments accounted for by the equity method	<u>578,137</u>
	<u>\$ 578,611</u>

The accounting changes have no influence on the net income or earnings per share - after tax in 2006.

On January 1, 2006, the Corporation adopted the revised SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities," and SFAS No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method." These revisions stated that goodwill is the difference between the cost of an investment and the amount of the underlying equity in net assets of an investee and should no longer be amortized and should instead be tested for impairment loss periodically. This accounting change resulted in an increase of net income by \$7,614 thousand and an increase of earnings per share - after tax by \$0.09 in 2006.

The Corporation, starting from January 1, 2007, adopted the newly issued SFAS No. 37 - "Accounting for Intangible Assets" and No. 38 - "Accounting for Noncurrent Assets Held for Sale and Discontinued Operations" and related revisions of previously released statements. The adoption had no material impact on the Corporation's financial statements for the year ended December 31, 2007.

#### 4. CASH

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 158	\$ 215
Checking accounts and demand deposits	<u>195,458</u>	<u>72,397</u>
	<u>\$ 195,616</u>	<u>\$ 72,612</u>

#### 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
<u>Financial assets held for trading</u>		
Domestic listed shares	\$ 326,403	\$ 177,833
Mutual funds	<u>897,023</u>	<u>-</u>
	<u>\$ 1,223,426</u>	<u>\$ 177,833</u>

Net loss on financial assets held for trading was \$35,201 thousand in 2007 and \$2,794 thousand in 2006.

#### 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Domestic listed shares	\$ 2,740	\$ 9,701	\$ 418,823	\$ -
Mutual funds	<u>1,099</u>	<u>-</u>	<u>55,923</u>	<u>-</u>
	<u>\$ 3,839</u>	<u>\$ 9,701</u>	<u>\$ 474,746</u>	<u>\$ -</u>

#### 7. NOTES AND ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Notes receivable	\$ 214,198	\$ 93,329
Less: Allowance for doubtful accounts	<u>268</u>	<u>-</u>
	<u>\$ 213,930</u>	<u>\$ 93,329</u>
Accounts receivable	\$ 1,651,061	\$ 684,510
Less: Allowance for doubtful accounts	<u>118,323</u>	<u>33,762</u>
	<u>\$ 1,532,738</u>	<u>\$ 650,748</u>

## 8. LEASE RECEIVABLES, NET

	<b>Current</b>	<b>Long-term</b>	<b>Total</b>
<u>December 31, 2007</u>			
Lease receivables	\$ 7,461	\$ 9,573	\$ 17,034
Less: Unearned interest income	<u>801</u>	<u>685</u>	<u>1,486</u>
	<u>\$ 6,660</u>	<u>\$ 8,888</u>	<u>\$ 15,548</u>
<u>December 31, 2006</u>			
Lease receivables	\$ 1,486	\$ 1,114	\$ 2,600
Less: Unearned interest income	<u>119</u>	<u>219</u>	<u>338</u>
	<u>\$ 1,367</u>	<u>\$ 895</u>	<u>\$ 2,262</u>

## 9. INVENTORIES, NET

	<u>December 31</u>	
	<b>2007</b>	<b>2006</b>
Merchandise	\$ 961,556	\$ 248,831
Maintenance parts	<u>56,897</u>	<u>-</u>
	1,018,453	248,831
Less: Allowance for losses	<u>105,930</u>	<u>21,505</u>
	<u>\$ 912,523</u>	<u>\$ 227,326</u>

## 10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	<u>December 31</u>	
	<b>2007</b>	<b>2006</b>
Unquoted common stock	<u>\$ 579,444</u>	<u>\$ 28,989</u>

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

In 2007, the Corporation and its subsidiary, Ching Pu Investment Corporation (CPIC), had purchased the newly issued common stock of Far Eastern Electronic Toll Collection Co., Ltd. (FETC) of \$119,700 thousand and \$50,513 thousand, respectively. The related investment cost is being amortized over the contracted operating periods with the government. In 2007, the Corporation and CPIC charged amortization expenses of \$2,394 thousand and \$1,010 thousand, respectively, which were included in the impairment loss of the financial assets carried at cost.

In addition to the above losses, other than temporary decline of other financial assets carried at cost was determined by the Corporation, and impairment losses on these assets were calculated. Thus, the Corporation recognized additional impairment losses of \$22,901 thousand in 2007 and \$544 thousand in 2006.

The Corporation owned common shares of New Century InfoComm Co., Ltd. and Sysjust Co., Ltd. The two companies had reduced their capital in August of 2007 and had returned cash of \$66,948 thousand and \$6,705 thousand to the Corporation, respectively.

Chieng Hsing Ventures Capital Corporation had liquidated in July of 2007 and returned \$1,271 thousand as balance of capital after liquidation to the Corporation (of which \$111 thousand is included in other receivable account).

## 11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	<b>December 31</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Carrying Value</b>	<b>Owner-ship %</b>	<b>Carrying Value</b>	<b>Owner-ship %</b>
Unlisted common stocks				
System Capital Group Inc.	\$ 3,673,967	100.0	\$ -	-
Ching Pu Investment Corporation (Notes 2 and 20)	2,703,359	100.0	-	-
Kimo.com (BVI) Corporation	1,812,723	100.0	1,878,989	100.0
Megatime Tech Corporation	313,251	88.2	-	-
Hanmore Investment Corporation (Notes 2 and 20)	245,884	48.9	-	-
Enrichment I Venture Capital Corporation (EIVCC)	152,403	37.7	-	-
Concord System Management Corporation (CSMC)	50,318	15.8	-	-
OpenPower Information Co., Ltd.	29,510	100.0	4,682	100.0
Global FortuneNet Technology Corporation (GFNT)	10,851	100.0	-	-
Sysplus Corporation (Sysplus)	6,314	23.1	6,489	23.1
System Infopro Co., Ltd.	5,572	20.0	-	-
Wit Investment Partners Ltd. (WIPL)	2,543	20.0	-	-
UCOM Information Ltd.	1,933	100.0	1,553	100.0
UCOM Technologies Inc.	886	100.0	1,101	100.0
TrustView Inc. (TVI)	377	4.2	-	-
S.H. Technology Ltd. (SHTL)	282	100.0	6,934	100.0
Systeme Technology Corp.	55	100.0	-	-
Earnest Corporation (Earnest)	-	-	9,633	100.0
Mindwork Ltd. (Mindwork)	-	-	6,818	100.0
eTech Venture Corporation (ETVC)	-	-	3,997	17.3
	<u>\$ 9,010,228</u>		<u>\$ 1,920,196</u>	
Credit balance of investments accounted for by the equity method				
Unlisted common stocks				
Systeme Technology Corp.	<u>\$ -</u>	-	<u>\$ 163</u>	100.0

The Corporation exercises significant influence on CSMC, ETVC and TVI although the Corporation holds equity interests of less than 20% in these entities. Thus, they are accounted for using the equity method.

EIVCC and CSMC have reduced their capital in June and August 2007, respectively, and have returned \$34,000 thousand and \$33,344 thousand to the Corporation, respectively.

ETVC had been dissolved and liquidation process had been completed on August 20, 2007. At the completion of liquidation, the Corporation received \$2,489 thousand of cash and \$813 thousand of common shares of TVI.

System Investment Holdings Ltd. (SIHL) had liquidated in December 2007 and the Corporation has received \$300,930 thousand in cash after the completion of the liquidation process.

UCOM Technologies Inc. had liquidated in December 2007 and the process has been completed in January of 2008.

In December 2007, pursuant to the resolution of the board of directors of GFNT, it was dissolved on December 31, 2007. However, the liquidation process has yet to be completed before the date of auditors' report.

The difference between the cost of investment accounted for by the equity method and the Corporation's share in investees' net assets allocated to goodwill amounted to \$36,921 thousand and \$531 thousand as of December 31, 2007 and 2006, respectively.

Investment income (loss) recognized under the equity method was as follows:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
System Capital Group Inc.	\$ 198,500	\$ -
Ching Pu Investment Corporation	60,257	-
Hanmore Investment Corporation	55,747	-
System Investment Holdings Ltd.	55,310	-
Megatime Tech Corporation	11,648	-
Concord System Management Corporation	3,733	-
Wit Investment Partners Ltd.	410	-
UCOM Information Ltd.	380	(6,811)
System Technology Corp.	231	(380)
Global FortuneNet Technology Corporation	(38)	-
Sysplus Corporation	(175)	20
UCOM Technologies Inc.	(212)	(151)
System Infopro Co., Ltd.	(351)	-
Enrichment I Venture Capital Corporation	(387)	-
TrustView Inc.	(436)	-
eTech Venture Corporation	(760)	(1,802)
OpenPower Information Co., Ltd.	(5,172)	44
S.H. Technology Ltd.	(6,652)	934
Kimo.com (BVI) Corporation	(37,937)	178,794
Mindwork Ltd.	-	384
Earnest Corporation	-	(160)
	<u>\$ 334,096</u>	<u>\$ 170,872</u>

The financial statements used as bases for the carrying values of equity-method investments and the related equity in net income or net loss had all been audited except those of WIPL. The Corporation believes that had WIPL's financial statements been audited, there would have been no material adjustments on the Corporation's financial statements.

The cost of investment in SHTL and Sysplus, exceeded the Corporation's equity in the investees' net assets. After the Corporation's evaluation, neither their value-in-use nor their net realizable value could cover the carrying value. Thus, the Corporation recognized impairment losses of \$4,080 thousand and \$531 thousand, respectively, in 2007.



In January of 2007, the Corporation sold all the shares of the two companies it owned, Mindwork and Earnest, at a price of \$16,444 thousand. Recognized gain on disposal of investment totaled \$204 thousand, which included the unrealized gain on financial instruments of \$211 thousand transferred to realized disposal profit.

The Corporation recognized investment income of SIHL, which included the accumulated translation adjustments amount transferred to investment income of \$35,518 thousand.

The Corporation has acquired CSMC's stock, at a cost lower than fair value. After partially allocating the excess of fair value over cost to noncurrent assets, the remaining amount of \$2,128 thousand is credited to extraordinary gain.

The Corporation's consolidated financial statements included the accounts of all its subsidiaries.

## 12. PROPERTY AND EQUIPMENT

Accumulated depreciation consisted of:

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Buildings	\$ 231,546	\$ 3,967
Computer equipment	374,529	108,665
Transportation equipment	11,294	1,760
Leasehold improvements	76,111	58,301
Other equipment	<u>84,411</u>	<u>24,391</u>
	<u>\$ 777,891</u>	<u>\$ 197,084</u>

## 13. GOODWILL

Goodwill arose from the merger and was derived as the difference between the book value of long-term investments and the fair value of the subsidiaries' net assets, which amounted to \$39,107 thousand as of December 31, 2007 and \$37,177 thousand as of December 31, 2006. No impairment loss on goodwill was determined after evaluating its value-in-use and net realizable value.

## 14. ASSETS LEASED TO OTHERS

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Cost		
Land	\$ 67,540	\$ -
Buildings	116,569	-
Computer equipment	<u>52,091</u>	<u>18,767</u>
	<u>236,200</u>	<u>18,767</u>
Accumulated depreciation		
Buildings	49,362	-
Computer equipment	<u>36,445</u>	<u>12,090</u>
	<u>85,807</u>	<u>12,090</u>
Accumulated impairment loss (land and buildings)	<u>28,450</u>	<u>-</u>
	<u>\$ 121,943</u>	<u>\$ 6,677</u>

## 15. ASSETS FOR DISPOSAL, NET

Assets for disposal are network operation centers that are currently not in use. Their corresponding cost, accumulated depreciation and accumulated impairment loss are as follows:

	<b>December 31, 2007</b>
Land	\$ 15,175
Buildings	<u>8,011</u>
	23,186
Accumulated depreciation - building	2,772
Accumulated impairment loss	<u>2,416</u>
	<u>\$ 17,998</u>

## 16. SHORT-TERM LOANS

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Unsecured bank loans: 1.89%-1.95% interest per annum; due between February 9, 2007 to October 18, 2007	<u>\$ -</u>	<u>\$ 140,000</u>

## 17. COMMERCIAL PAPER ISSUED, NET

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Commercial paper issued - discount rate 1.5%	\$ -	\$ 60,000
Less: Unamortized discount on commercial paper issued	<u>-</u>	<u>116</u>
	<u>\$ -</u>	<u>\$ 59,884</u>

In 2006, Kimo.com (BVI) Corporation provided US\$2,000 thousand of time deposit as collateral for the above commercial paper.

## 18. PENSION PLAN

### Defined contribution plan

The Corporation has a defined benefit plan for all regular employees under the Labor Standards Law (the "LSL"). However, on July 1, 2005, a new Labor Pension Act (the "Act") took effect, and the employees who were subject to the Labor Standards Law before the enforcement of the Act were allowed to continue to be covered by the defined benefit plan under the Labor Standards Law or to be subject to the defined contribution plan under the Act, with their service period as of June 30, 2005 to be retained. Employees hired on or after July 1, 2005 can be covered only by the new Act.

Based on the defined contribution plan under the Labor Pension Act, the rate of the required monthly contributions to the employees' individual pension accounts starting from July 1, 2005 is at 6% of salaries or wages. The Corporation recognized pension costs of \$60,030 thousand in 2007 and \$19,724 thousand in 2006.

### Defined benefit plan

Based on the defined benefit plan under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributed amounts equal to 2% and 3.96% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee in 2007 and 2006, respectively. The pension fund is deposited in the Bank of Taiwan (the Central Trust of China was merged into the Bank of Taiwan in July 2007) in the committee's name.

Information about the defined benefit plan was as follows:

a. The changes in the pension funds:

	<b>2007</b>	<b>2006</b>
Balance, beginning of year	\$ 52,044	\$ 45,204
Pension fund of the dissolved entity	81,152	-
Contributions	13,731	5,682
Payments	(8,629)	-
Interest income	<u>2,641</u>	<u>1,158</u>
Balance, end of year	<u>\$ 140,939</u>	<u>\$ 52,044</u>

The pension funds above at the end of 2007 and 2006 combined the amounts from the dissolved companies due to merger. At the end of 2007, the fund balance included the pension funds of \$83,420 thousand from Systex and \$9,473 thousand from ULSTEK Co., Ltd. (ULSTEK). At the end of 2006, the fund balance included \$9,403 thousand from ULSTEK. The Corporation still waits for the Department of Labor, Taipei City Government to authorize the combination of the dissolved companies' pension accounts into its own.

b. The changes in pension liability:

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Balance, beginning of the year	\$ 3,126	\$ 6,502
Liability of the dissolved entity	84,061	-
Pension cost for the year	14,178	2,306
Contributions	(13,731)	(5,682)
Additional liability	<u>9,219</u>	<u>-</u>
Balance, end of the year	<u>\$ 96,853</u>	<u>\$ 3,126</u>

c. Pension cost

	<b>2007</b>	<b>2006</b>
Net periodic pension cost		
Service cost	\$ 4,155	\$ 1,034
Interest cost	9,219	2,008
Actual return on plan assets	\$ 2,641	\$ 1,158
Loss on plan assets	<u>1,189</u>	<u>288</u>
Projected return on plan assets (total of actual return on plan assets and loss on plan assets)	(3,830)	(1,446)
Amortization	<u>4,634</u>	<u>710</u>
	<u>\$ 14,178</u>	<u>\$ 2,306</u>

d. Reconciliation of the funded status of the plan and accrued pension cost:

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Benefit obligation		
Vested benefit obligation	\$ 21,656	\$ 12,131
Nonvested benefit obligation	<u>216,136</u>	<u>65,322</u>
Accumulated benefit obligation	237,792	77,453
Additional benefits based on future salaries	<u>108,848</u>	<u>33,012</u>
Projected benefit obligation	346,640	110,465
Fair value of plan assets	<u>(140,939)</u>	<u>(52,044)</u>
Funded status	205,701	58,421
Unrecognized net transition asset (obligation)	(10,344)	479
Unrecognized net actuarial loss	(107,723)	(55,774)
Additional pension obligation	<u>9,219</u>	<u>-</u>
Accrued pension cost	<u>\$ 96,853</u>	<u>\$ 3,126</u>
Vested benefits obligations	<u>\$ 25,047</u>	<u>\$ 13,136</u>

e. Actuarial assumptions

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Discount rate used in determining present value	2.75%	2.75%
Future salary increase rate	2.50%	2.50%
Expected rate of return on plan assets	2.75%	2.75%

## 19. STOCKHOLDERS' EQUITY

### Capital stock

As stated in Notes 1 and 2, the merger of the Corporation and Systex Corporation (Systex) is based on the reverse merger accounting treatment. Under such treatment, Systex is listed as the acquirer entity and the Corporation is the acquired entity. As a result, the change in capital stock of the Corporation in 2007 was as follows:

Balance, beginning of the year	\$ 832,307
Issuance of stock from merger	2,366,801
Issuance of stock from exercising employee stock options	<u>2,670</u>
Balance, end of the year	<u>\$ 3,201,778</u>

### Stock-based compensation plan

For the Corporation to retain its quality professionals for its business and operations and deepen the employees' sense of belonging, the Corporation adopted stock option plans (the "Plans") - which the Board of Directors approved on March 19, 2007 and May 3, 2005 - to grant employees 9,500 units and 3,000 units of stock options, respectively. Each unit represented 1,000 common shares of the Corporation. The Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan of ROC approved the Plans on June 14, 2007 and June 22, 2005, respectively.

The Corporation issued 1,500 units each on May 16, 2006 and August 30, 2005. The option rights were granted to qualified employees of the Corporation and its subsidiaries. The option rights are valid for 5 years and exercisable at certain percentages after the second anniversary of the grant date. The exercise price of the stock option right is equal to the closing price of the Corporation's common shares listed on the Taiwan Gre Tai Securities Market on the date of the grant. If the number of the Corporation's common shares changes after the granting of the stock option, the exercise price will be revised in accordance with the terms of the Plans.

The outstanding employee stock options in 2007 and 2006 were as follows:

Employee Stock Option	<u>2007</u>		<u>2006</u>	
	<b>Number of Outstanding Options</b>	<b>Weighted-average Exercise Price (NT\$)</b>	<b>Number of Outstanding Options</b>	<b>Weighted-average Exercise Price (NT\$)</b>
Beginning outstanding balance	3,000	<u>\$ 28.48</u>	1,500	<u>\$ 32.65</u>
Options granted	-	<u>\$ -</u>	1,500	<u>\$ 31.85</u>
Options exercised	<u>(348)</u>	<u>\$ 27.80</u>	-	<u>\$ -</u>
Ending outstanding balance	<u>2,652</u>	<u>\$ 27.43</u>	<u>3,000</u>	<u>\$ 32.25</u>
Ending exercisable balance	<u>552</u>		-	
Weighted average fair value of the options granted	<u>\$ -</u>		<u>\$ 8.4</u>	

As of December 31, 2007, outstanding employee stock options were as follows:

Range of Exercise Price (NT\$)	Number of Outstanding Options	Weighted-average Remaining Life (Years)	Weighted-average Exercise Price of Outstanding Options (NT\$)	Number of Exercisable Options	Weighted-average Exercise Price (NT\$)
<u>\$27.80</u>	<u>1,152</u>	2.66	<u>\$27.80</u>	<u>552</u>	<u>\$27.80</u>
<u>\$27.15</u>	<u>1,500</u>	3.37	<u>\$27.15</u>	<u>-</u>	<u>\$ -</u>

Based on the intrinsic value-based method used by the Corporation, the compensation cost of 2007 and 2006 for the employee stock options granted did not need to be recognized. Had the Corporation applied the fair value-based method to this compensation cost, the Corporation's assumptions and pro forma results in 2007 and 2006 would have been as follows:

		Issued on May 16, 2006	Issued on August 30, 2005
Method:	Black-Scholes Model		
Assumptions:	Risk-free interest rate	2.15%	1.76%
	Expected life	5 years	5 years
	Expected volatility	30.00%	41.06%
	Expected dividend yield	-	-
		<b>2007</b>	<b>2006</b>
Net income of the Corporation:	Net income as reported	\$892,401	\$306,124
	Pro forma net income	879,261	293,790
Earnings per share (EPS) of the Corporation:	Basic EPS as reported (NT\$)	3.02	3.68
	Pro forma basic EPS (NT\$)	2.98	3.53

#### Capital surplus

Under relevant regulations, capital surplus from equity-method investments cannot be used for any purpose. Capital surplus from additional paid-in capital and donation received can only be used to offset deficit or transferred to capital, and the amount transferred per year should not exceed a certain percentage of the capital. Other capital surplus can only be used to offset deficit.

Capital surplus adjustment after the merger as of January 1, 2007 was as follows:

Additional capital surplus as a result of issuance of stock for merger	\$ 7,479,099
Adjustment of capital surplus under reverse merger accounting	1,449,829
Elimination of mutually owned stocks between Systex and the Corporation	<u>(350,734)</u>
	<u>\$ 8,578,194</u>

#### Appropriation of earnings and dividend policy

The Corporation's Articles of Incorporation provide that the annual net income (less any deficit) after allocations of 10% as legal reserve and of special reserve should be appropriated as follows:

- Dividends not exceeding 10% of capital;
- 10% as bonus to employees;

- c. 2% as remuneration to directors and supervisors;
- d. The remainder, to be distributed to the stockholders or retained by the Corporation.

The employees who qualify for the distribution of earnings as bonus include employees of the Corporation's affiliates who meet certain criteria.

Following its Articles of Incorporation and considering the overall environment, growth trends in the industry, and the Corporation's long-term financial planning and ongoing goal to have steady progress, the Corporation applies its residual dividends policy as follows:

- a. Determine the appropriate capital budget.
- b. Determine the funds needed for the capital budget.
- c. Determine the amount to be funded by unappropriated earnings (the remaining may be funded through capital increase by cash or through issuance of bonds).
- d. The remaining retained earnings, less an appropriate portion for the operational needs, may be distributed to stockholders.

The Corporation's dividends may be distributed in cash or stocks. Cash dividends should not exceed 50% of the total distributed cash and stock dividends. In addition, dividend policy depends on criteria such as the Corporation's current and future investment environment, cash requirements, domestic and international competition. Further, the Corporation evaluates stockholders' interests and balances dividends and its long-term financial goals. Annually, the board of directors prepares a proposal on earnings appropriation for approval at the stockholders' meeting.

Under the local regulations, when the Corporation distributes its earnings, it needs to provide a special reserve equal to the sum of all debit balances shown in the stockholders' equity, except for deficit and treasury stock. If the Corporation's stock are held by its subsidiaries at the end of the year and the market value of the shares held are lower than their carrying value, the Corporation should provide a special reserve equal to the difference between the book value and market value multiplied by its percentages of ownership of the subsidiaries. The balance of the special reserve is adjusted to reflect changes in the debit balances of the stockholders' equity accounts, and the portion that is reversed should be available for distribution as dividends.

Under the Company Law, legal reserve should be appropriated until the reserve equals the Corporation's capital. This reserve may be used to offset a deficit; or, when the reserve has reached 50% of the capital, up to 50% thereof may be transferred to capital.

Any appropriations of earnings are recorded in the year of stockholders' approval. Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2006 and 2005 had been approved in the stockholders' meetings held on June 13, 2007 and June 15, 2006, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share</u> (NT\$)	
	<u>For Fiscal Year 2006</u>	<u>For Fiscal Year 2005</u>	<u>For Fiscal Year 2006</u>	<u>For Fiscal Year 2005</u>
Reversal of special reserve	\$ (70,929)	\$ (49,551)	\$ -	\$ -
Legal reserve	30,612	31,701	-	-
Bonus to employees - in cash	34,644	25,285	-	-
Bonus to employees - in stock	-	8,200	-	-
Bonus to directors and supervisors - in cash	6,929	6,697	-	-
Cash dividends	319,911	156,974	1.00	2.00
Stock dividends	-	19,622	-	0.25
	<u>\$ 321,167</u>	<u>\$ 198,928</u>	<u>\$ 1.00</u>	<u>\$ 2.25</u>

The stockholders also resolved the transfer of \$19,622 thousand of capital surplus to paid-in capital in the stockholders' meeting on June 15, 2006.

If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2006 and 2005, the basic after income tax earnings per share for the years ended December 31, 2006 and 2005 would have decreased from \$3.68 to \$3.18 and \$4.04 to \$3.33, respectively.

Stock bonus to employees of 820 thousand shares were distributed out of the earnings for the year ended December 31, 2005, representing 1.04% of the total outstanding shares at the end of 2005.

As of March 7, 2008, the board of directors has not resolved the appropriations of earnings for 2007. Information about the appropriations of earnings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

#### Unrealized gain or loss on financial instruments

For the years ended December 31, 2007 and 2006, movements of unrealized gain or loss on financial instruments were as follows:

	<u>Available-for-sale Financial Assets</u>	<u>Equity Method Investments</u>	<u>Total</u>
<u>Year ended December 31, 2007</u>			
Balance, beginning of the year	\$ 85,191	\$ 279,261	\$ 364,452
Transferred from the dissolved entity	(85,837)	(196,487)	(282,324)
Recognized in stockholders' equity	(9,277)	945,698	936,421
Transferred to profit or loss	(429)	(211)	(640)
Balance, end of the year	<u>\$ (10,352)</u>	<u>\$ 1,028,261</u>	<u>\$ 1,017,909</u>

(Continued)



	<b>Available-for- sale Financial Assets</b>	<b>Equity Method Investments</b>	<b>Total</b>
<u>Year ended December 31, 2006</u>			
Balance, beginning of the year	\$ -	\$ -	\$ -
Effects of adoption of SFAS No.34	474	578,137	578,611
Recognized in stockholders' equity	90,319	(298,876)	(208,557)
Transferred to profit or loss	<u>(5,602)</u>	<u>-</u>	<u>(5,602)</u>
Balance, end of the year	<u>\$ 85,191</u>	<u>\$ 279,261</u>	<u>\$ 364,452</u> (Concluded)

## 20. TREASURY STOCK

(In Thousand Shares)

<b>Purpose of Treasury Stock</b>	<b>Beginning</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending</b>
<u>2007</u>				
Reclassification of parent company stock held by subsidiaries from equity-method investments into treasury stock	<u>-</u>	<u>24,794</u>	<u>-</u>	<u>24,794</u>

After the merger with Systex Corporation (Systex), Ching Pu Investment Corporation (Ching Pu) and Hanmore Investment Corporation (Hanmore) which are the subsidiaries of Systex also merged as the Corporation's subsidiaries. For this merger, every 3.0105 shares of Systex were swapped for one share of the Corporation. Therefore, Hanmore held 21,206 thousand shares of the Corporation after swapping 63,842 thousand shares of Systex. The carrying value of Hanmore's investment in the Corporation's shares, which were treated as available-for-sale financial assets, was \$678,636 thousand, which represents the investment cost of \$1,054,339 thousand net of the market value decline of \$375,703 thousand. The Corporation reclassified its 48.9% ownership of Hanmore, with a carrying amount of \$331,989 thousand (10,370 thousand shares), into treasury stock.

Based on the closing price as of December 31, 2007, the market value of the Corporation's shares held by Hanmore of 21,206 thousand shares was \$678,602 thousand.

Starting from January 1, 2007, the Corporation reclassified its 100% ownership of Ching Pu, with the carrying value of Ching Pu's investment in the Corporation's share, which were treated as available-for-sale financial assets - noncurrent, of \$502,435 thousand (14,424 thousand shares), into treasury stock.

Based on the closing price as of December 31, 2007, the market value of the Corporation's shares held by Ching Pu of 14,424 thousand shares was \$461,564 thousand.

The Corporation's shares held by its subsidiaries are recorded as treasury stocks, with the subsidiaries having the same rights as other common stockholders on these stocks, except that the subsidiaries which are owned by the parent company for over 50% will not have the right to participate in any share issuance for cash or to vote.

## 21. INCOME TAX

The ROC government enacted the Alternative Minimum Tax Act (“AMT Act”), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is supplemental tax levied at a rate of 10% tax which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Corporation has considered the impact of the AMT Act in determining its tax liabilities.

a. Income tax expense was as follows:

	2007	2006
Currently payable	\$ 72,722	\$ 36,672
Additional income tax on unappropriated earnings (10%)	-	11,870
Investment tax credits generated during the year	(69,545)	(13,760)
Deferred income tax	7,074	4,045
Prior years’ tax adjustment	<u>12,315</u>	<u>(2,106)</u>
Income tax expense	<u>\$ 22,566</u>	<u>\$ 36,721</u>

Income tax payable as of December 31, 2007 and 2006 were net of prepaid income tax of \$14,907 thousand and \$25 thousand, respectively.

b. Reconciliation of tax on accounting pretax income at statutory rate to income tax currently payable was as follows:

	2007	2006
Tax on pretax income at 25% statutory rate	\$ 228,732	\$ 85,701
Add (deduct) tax effects of:		
Impairment loss on financial assets carried at cost	6,323	136
Equity in the net loss (income) of domestic investees	(30,229)	1,942
Equity in the net income of foreign investees	(53,827)	(44,661)
Allowance (reversal of allowance) for doubtful accounts	(24,492)	4,109
Tax-exempt income from sale of securities	(22,053)	(1,421)
Reversal of unrealized cost of sales	(14,788)	-
Realized sales allowance	(2,309)	-
Reversal of unrealized loss on endorsements	(6,750)	-
Gain from liquidation of investees, net	3,528	-
Unrealized loss on valuation of financial instruments	8,800	698
Dividend income	(4,928)	(937)
Realized deferred charges	(4,319)	(5,616)
Reversal of unrealized loss on breach of contracts	(6,385)	-
Tax-exempt income from sales of land	(2,251)	-
Amortization of goodwill resulted from merger	(2,639)	-
Others	<u>309</u>	<u>(3,279)</u>
Currently payable	<u>\$ 72,722</u>	<u>\$ 36,672</u>

c. Deferred income tax assets (liabilities) were as follows:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Deferred income tax assets - current		
Unrealized sales allowances	\$ 35,196	\$ -
Allowance for doubtful accounts	27,376	6,634
Allowance for losses on inventories	26,483	5,378
Unused investment tax credits	25,305	10,823
Unrealized cost of sales	8,699	-
Others	<u>550</u>	<u>-</u>
	123,609	22,835
Less: Valuation allowance	<u>25,305</u>	<u>-</u>
	<u>\$ 98,304</u>	<u>\$ 22,835</u>
Deferred income tax assets (liabilities) - noncurrent		
Unused investment tax credits	\$ 163,054	\$ -
Impairment loss on financial assets carried at cost	117,557	-
Cumulative investment loss on foreign investees under equity method	49,533	-
Accrued pension cost	21,908	-
Cumulative investment loss on domestic investees under equity method	13,769	-
Unrealized royalty fees	5,279	-
Unused loss carryforwards	3,486	-
Impairment loss on assets for disposal and assets leased to others	3,269	-
Goodwill resulted from merger	(5,181)	-
Others	<u>555</u>	<u>4,728</u>
	373,229	4,728
Less: Valuation allowance	<u>193,205</u>	<u>-</u>
	<u>\$ 180,024</u>	<u>\$ 4,728</u>

The statutory tax rate of 25% was used to calculate the deferred income taxes as of December 31, 2007 and 2006.

d. As of December 31, 2007, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Employee training	\$ 4,635	\$ 4,635	2008
Statute for Upgrading Industries	Research and development expenses	63,816	20,670	2008
Statute for Upgrading Industries	Employee training	1,679	1,679	2009
Statute for Upgrading Industries	Research and development expenses	53,866	53,866	2009
Statute for Upgrading Industries	Employee training	1,664	1,664	2010
Statute for Upgrading Industries	Research and development expenses	41,704	41,704	2010
Statute for Upgrading Industries	Purchase of machinery and equipment	1,341	1,341	2010
Statute for Upgrading Industries	Employee training	2,551	2,551	2011
Statute for Upgrading Industries	Research and development expenses	66,994	60,249	2011
		<u>\$ 238,250</u>	<u>\$ 188,359</u>	

e. Loss carryforwards as of December 31, 2007 were as follows:

<b>Year of Loss</b>	<b>Total Credit Available</b>	<b>Unused Credit</b>	<b>Expiry Year</b>
2005	\$ 2,637	\$ 2,637	2010
2006	<u>849</u>	<u>849</u>	2011
	<u>\$ 3,486</u>	<u>\$ 3,486</u>	

f. The integrated income tax was as follows:

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Imputation credit account balance	<u>\$ 249,979</u>	<u>\$ 31,964</u>

The estimated 2007 and the actual 2006 tax credit allocation rates applicable to the stockholders are 10.26% and 14.82%, respectively.

The unappropriated earnings, as of December 31, 2007 and 2006, do not include unappropriated earnings before 1998.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2007 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

g. Income tax returns through 2005 and undistributed earnings returns through 2004 have been assessed by the tax authorities. The Corporation disagreed with the tax authorities' assessment of the investment tax credits of its 2005 tax return and had applied for a re-examination. Nevertheless, the Corporation has provided provision for the income tax assessed by the tax authorities for conservatism.

## 22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<b>2007</b>		
	<b>Cost of Sales</b>	<b>Operating Expenses</b>	<b>Total</b>
Personnel			
Payroll	\$ -	\$ 1,408,195	\$ 1,408,195
Insurance	-	86,815	86,815
Pension	-	74,208	74,208
Others	-	<u>51,233</u>	<u>51,233</u>
	<u>\$ -</u>	<u>\$ 1,620,451</u>	<u>\$ 1,620,451</u>
Depreciation	<u>\$ 29,037</u>	<u>\$ 70,718</u>	<u>\$ 99,755</u>
Amortization	<u>\$ 8,844</u>	<u>\$ 14,714</u>	<u>\$ 23,558</u>

	<b>2006</b>		
	<b>Cost of Sales</b>	<b>Operating Expenses</b>	<b>Total</b>
Personnel			
Payroll	\$ -	\$ 469,477	\$ 469,477
Insurance	-	30,178	30,178
Pension	-	22,030	22,030
Others	-	18,349	18,349
	<u>-\$</u>	<u>\$ 540,034</u>	<u>\$ 540,034</u>
Depreciation	<u>\$ 5,100</u>	<u>\$ 44,736</u>	<u>\$ 49,836</u>
Amortization	<u>\$ -</u>	<u>\$ 10,733</u>	<u>\$ 10,733</u>

### **23. REVERSAL OF ALLOWANCE FOR DOUBTFUL ACCOUNTS AND OTHER NON-OPERATING INCOME**

On February 24, 2006, the Taipei High Administrative Court announced its decision to revoke the status of Far Eastern Electronic Toll Collection Co., Ltd. (FETC) as the best qualified candidate for "Private Participation in the Electronic Toll Collection BOT Project" ("ETC Project"). On August 3, 2006, the Supreme Administrative Court ruled that the original screening process conducted by the Taiwan Area National Freeway Bureau ("TANFB") was flawed and in violation of the principles of equality and promotion of public interest. Thus, this court stripped FETC of its "best qualified candidate" status. In 2006, after the assessment, Systex Corporation (Systex) has decided to recognize the loss on receivables from FETC of \$102,422 thousand and the collaterals to the bank of \$27,000 thousand on behalf of FETC.

TANFB had reapplied for the selection process in 2007 and had written a new agreement with FETC on the seventh of August 2007. After approval from Ministry of Transportation and Communication, on August 22, 2007, TANFB signed a new contract with FETC, which would last a total of eighteen years and four months.

In 2007, the Corporation collected the \$102,422 thousand receivables from FETC and rescinded the \$27,000 thousand collaterals to the bank. Therefore, the related loss recognized in 2006 has been reversed as nonoperating income in 2007.

Systex (before the merger) had signed two project contracts and could not execute one of them and thus, accrued \$12,580 thousand as penalty for breach of contract in 2006. However, the customer and the Corporation reached an agreement and the customer has agreed to exempt the Corporation \$11,580 thousand from its penalty in 2007. In addition, Systex could not complete the other project as scheduled. For the delay, Systex accrued \$12,960 thousand as penalty based on the length of the delay. In 2007, the customer and the Corporation reached an agreement and the customer has agreed to relieve Systex of the entire penalty. In 2007, both exempt amounts are booked as other income.

## 24. EARNINGS PER SHARE

The data used in calculating the Corporation's earnings per share were as follows:

	<u>Amount (Numerator)</u>		<u>Shares in Thousands (Denominator)</u>	<u>Earnings Per Share (NT\$)</u>	
	<u>Pretax</u>	<u>After-tax</u>		<u>Pretax</u>	<u>After-tax</u>
<u>2007</u>					
Basic earnings per share					
Net income before extraordinary gains	\$ 912,839	\$ 890,273	295,189	\$ 3.09	\$ 3.01
Extraordinary gains	<u>2,128</u>	<u>2,128</u>	295,189	<u>0.01</u>	<u>0.01</u>
	<u>\$ 914,967</u>	<u>\$ 892,401</u>		<u>\$ 3.10</u>	<u>\$ 3.02</u>
<u>2006</u>					
Basic earnings per share	<u>\$ 342,845</u>	<u>\$ 306,124</u>	83,231	<u>\$ 4.12</u>	<u>\$ 3.68</u>

The pro forma net income and earnings per share, had the parent company's stock held by subsidiaries been treated as an investment instead of treasury stock, are as follows:

	<u>Amount (Numerator)</u>		<u>Shares in Thousands (Denominator)</u>	<u>Earnings Per Share (NT\$)</u>	
	<u>Pretax</u>	<u>After-tax</u>		<u>Pretax</u>	<u>After-tax</u>
<u>2007</u>					
Pro forma basic earnings per share					
Net income before extraordinary gains	\$ 937,637	\$ 915,071	319,987	\$ 2.93	\$ 2.86
Extraordinary gains	<u>2,128</u>	<u>2,128</u>	319,987	<u>0.01</u>	<u>0.01</u>
	<u>\$ 939,765</u>	<u>\$ 917,199</u>		<u>\$ 2.94</u>	<u>\$ 2.87</u>

## 25. FINANCIAL INSTRUMENTS

### a. Fair values of financial instruments

The Corporation did not engage in transactions involving derivative instruments for the years ended December 31, 2007 and 2006.

	<u>December 31</u>			
	<u>2007</u>		<u>2006</u>	
<b>Non-derivative Instruments</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<u>Assets</u>				
Financial assets at fair value through profit or loss - current	\$ 1,223,426	\$ 1,223,426	\$ 177,833	\$ 177,833
Available-for-sale financial assets - current	3,839	3,839	474,746	474,746
Available-for-sale financial assets - noncurrent	9,701	9,701	-	-

(Continued)

	<b>December 31</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Non-derivative Instruments</b>				
Financial asset carried at cost	\$ 579,444	\$ -	\$ 28,989	\$ -
Investments accounted for by the equity method	9,010,228	-	1,920,196	-
Refundable deposits - noncurrent	45,603	45,603	53,132	53,132
Pledged time deposits - noncurrent	96,550	96,550	-	-
Long-term lease receivables, net	8,888	8,888	895	895
<b>Liabilities</b>				
Guarantee deposits received	8,602	8,602	124	124
Credit balance of investments accounted for by the equity method	-	-	163	-
				(Concluded)

As a result of the adoption of Statement of Financial Accounting Standards No. 34, - "Accounting for Financial instruments," the Corporation made adjustments to various accounts. Please refer to Note 3 for details.

b. Methods and assumptions used in determining fair values of financial instruments

- 1) The balance sheet carrying amounts of cash, notes and accounts receivable, receivables from and payables to related parties, lease receivables - current, other receivables, pledged time deposits - current, refundable deposits - current, short-term loans, commercial papers issued, notes and accounts payable, accrued expenses, and other payables, which were not included in the assets mentioned above, approximate fair value because of their short maturities.
- 2) For financial instruments at fair value through profit or loss and available-for-sale financial assets with active market, the fair value is based on quoted market price.
- 3) For financial assets carried at cost and investments in unlisted stocks accounted for by the equity method, the fair value cannot be estimated because related stocks have no active market and a reliable determination of their fair value entails an unreasonably high cost; therefore, fair value is not presented.
- 4) For refundable deposits - noncurrent, pledged time deposits - noncurrent and guarantee deposits received, their future receipt, settlement or payment term are uncertain; thus, their fair value are their book value.
- 5) For long-term lease receivables, their fair value is estimated using discounted cash flow analysis, based on the Corporation's contract rates with maturity periods similar to those of long-term leases.

c. Financial risks

- 1) Market risk. Financial instruments at fair value through profit or loss and available-for-sale financial assets are held by the Corporation for trading in active markets. Hence, the Corporation is exposed to market risks as a result of price fluctuations. The Corporation runs a control system to mitigate this risk, and management does not anticipate any material loss due to this risk.

- 2) Credit risk. The Corporation is exposed to credit risk on counter-parties' default on contracts. The Corporation's maximum exposure to credit risk is equal to its book value. In addition, the Corporation transacts only with selected financial institutions, corporations and individuals with good credit ratings. Thus, management does not anticipate any material losses on default on contracts.
- 3) Liquidity risk. The Corporation has sufficient working capital to meet the cash needs for its operations. Thus, no material liquidity risk is anticipated. In addition, the Corporation's financial instruments at fair value through profit or loss and available-for-sale financial assets are publicly-traded in an active market and can readily be sold in the market at their approximate fair values. However, it has financial assets carried at cost and investments in unlisted stocks accounted for by the equity method with significant liquidity risks because these assets do not have quoted market prices in an active market.

## 26. RELATED PARTY TRANSACTIONS

### a. Related parties

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
System Corporation (System)	Investor accounted for by the equity method (merged and dissolved with the Corporation on 2007/1/1)
System Technology Corp. (Systeme)	Investee accounted for by the equity method
Earnest Corporation (Earnest)	Investee accounted for by the equity method (sold in January of 2007)
Mindwork Ltd. (Mindwork)	Investee accounted for by the equity method (sold in January of 2007)
Kimo.com (BVI) Corporation (Kimo BVI)	Investee accounted for by the equity method
UCOM Information Ltd. (UCOM)	Investee accounted for by the equity method
OpenPower Information Co., Ltd. (OpenPower)	Investee accounted for by the equity method
S.H. Technology Ltd. (S.H.)	Investee accounted for by the equity method
Concord System Management Corporation (CSMC)	Investee accounted for by the equity method
Hanmore Investment Corporation (Hanmore)	Investee accounted for by the equity method
Ching Pu Investment Corporation (Ching Pu)	Investee accounted for by the equity method
Sysplus Corporation (Sysplus)	Investee accounted for by the equity method
Taiwan Electronic Data Processing Corp. (TEDP)	Investee's subsidiary (under controlling interest)
TrustView Inc. (TrustView)	Investee accounted for by the equity method
Megatime Tech Corp. (Megatime)	Investee accounted for by the equity method
Sysware Singapore Pte. Ltd. (Sysware Singapore)	Investee's subsidiary (under controlling interest)
UCOM Information Ltd. (Shanghai) (UCOM Shanghai)	Investee's subsidiary (under controlling interest)
System Information (H.K.) Limited (System Info)	Investee's subsidiary (under controlling interest)
AFE Solutions Limited (AFE)	Investee's investment accounted for by the equity method
System SDC China Ltd. (SSC)	Investee's subsidiary (under controlling interest)
Taifon Computer Co., Ltd. (Taifon)	Investee's investment accounted for by the equity method
SysView Corporation (SysView)	Investee's subsidiary (under controlling interest)
Syscape Technology Corporation (Syscape)	Investee's subsidiary (under controlling interest, liquidation completed in October 2007)

(Continued)



<u>Related Parties</u>	<u>Relationship with the Corporation</u>
Systek Information (Shanghai) Ltd. (Systek)	Investee's subsidiary (under controlling interest)
Systex South Asia Pte. Ltd. (SSAP)	Investee's subsidiary (under controlling interest)
Mondex Taiwan Inc. (Mondex)	Investee's subsidiary (under controlling interest)
Sysware (Thailand) Co., Ltd. (Sysware Thailand)	Investee's subsidiary (under controlling interest)
Sysware Asia (BVI) Ltd. (Sysware Asia)	Investee's subsidiary (under controlling interest, liquidation completed in December 2007)

(Concluded)

b. Significant related party transactions (in addition to those disclosed in Note 28)

	<u>2007</u>		<u>2006</u>	
	Amount	% to Total	Amount	% to Total
<u>For the year</u>				
Sales				
Taifon	\$ 16,288	1	\$ -	-
OpenPower	14,596	-	29,704	1
CSMC	12,113	-	1,944	-
SysView	4,967	-	3,671	-
Sysware Singapore	2,569	-	4,634	-
SSC	2,513	-	-	-
System Info	2,424	-	-	-
Systeme	1,667	-	107	-
TEDP	1,613	-	-	-
Sysplus	1,433	-	-	-
Mondex	1,389	-	-	-
AFE	1,309	-	-	-
Systeme	-	-	60,067	2
Others	<u>1,761</u>	<u>-</u>	<u>787</u>	<u>-</u>
	<u>\$ 64,642</u>	<u>1</u>	<u>\$ 100,914</u>	<u>3</u>
Purchases				
OpenPower	\$ 12,961	-	\$ 11,266	1
Taifon	3,540	-	-	-
TrustView	2,624	-	-	-
CSMC	2,566	-	566	-
SSC	1,867	-	-	-
Systeme	-	-	15,376	1
Others	<u>1,234</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 24,792</u>	<u>-</u>	<u>\$ 27,208</u>	<u>2</u>
Cost of services				
SysView	\$ 16,914	1	-	-
Systeme	3,415	-	43	-
OpenPower	1,710	-	158	-
Systeme	-	-	5,693	1
Others	<u>38</u>	<u>-</u>	<u>1,586</u>	<u>-</u>
	<u>\$ 22,077</u>	<u>1</u>	<u>\$ 7,480</u>	<u>1</u>

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>% to Total</u>	<u>Amount</u>	<u>% to Total</u>
Other nonoperating income				
OpenPower	\$ 3,852	4	\$ 3,840	38
SysView	3,600	4	-	-
Others	<u>153</u>	<u>-</u>	<u>3,091</u>	<u>31</u>
	<u>\$ 7,605</u>	<u>8</u>	<u>\$ 6,931</u>	<u>69</u>
Purchases of property and equipment (at carrying amount)				
S.H.	\$ -	-	\$ 663	2
Others	<u>-</u>	<u>-</u>	<u>22</u>	<u>-</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ 685</u>	<u>2</u>
Sales of property and equipment (at carrying amount)				
Earnest	\$ -	-	\$ 68	10
Others	<u>-</u>	<u>-</u>	<u>31</u>	<u>6</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ 99</u>	<u>16</u>
Operating expenses				
Systemex	\$ -	-	\$ 3,377	8
Others	<u>-</u>	<u>-</u>	<u>393</u>	<u>-</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ 3,770</u>	<u>8</u>
<u>At the end of the year</u>				
Receivables				
Accounts receivable				
OpenPower	\$ 8,433	11	\$ 32,216	46
Taifon	7,380	9	-	-
CSMC	6,224	8	725	1
Sysware Singapore	2,569	3	3,221	5
TEDP	1,613	2	-	-
Systemex	1,435	2	163	-
SysView	1,310	1	2,577	4
Systemex	-	-	13,241	19
Others	<u>1,409</u>	<u>2</u>	<u>1,079</u>	<u>2</u>
	<u>30,373</u>	<u>38</u>	<u>53,222</u>	<u>77</u>
Other receivables				
SSAP	17,361	22	-	-
Sysware Thailand	15,246	19	-	-
Kimo BVI	10,031	13	-	-
UCOM	-	-	7,296	11
Earnest	-	-	2,940	4
Mindwork	-	-	2,940	4
Others	<u>6,862</u>	<u>8</u>	<u>2,968</u>	<u>4</u>
	<u>49,500</u>	<u>62</u>	<u>16,144</u>	<u>23</u>
	<u>\$ 79,873</u>	<u>100</u>	<u>\$ 69,366</u>	<u>100</u>

	2007		2006	
	Amount	% to Total	Amount	% to Total
Payables				
Accounts payable				
OpenPower	\$ 6,025	25	\$ 2,558	13
SSC	1,867	8	-	-
Taifon	3,039	13	-	-
CSMC	2,590	11	111	1
SysView	1,823	7	-	-
Systex	-	-	10,720	54
Others	2,617	10	1,108	5
	<u>17,961</u>	<u>74</u>	<u>14,497</u>	<u>73</u>
Other payables				
UCOM	4,913	20	5,460	27
Others	1,364	6	38	-
	<u>6,277</u>	<u>26</u>	<u>5,498</u>	<u>27</u>
	<u>\$ 24,238</u>	<u>100</u>	<u>\$ 19,995</u>	<u>100</u>

The product/service sales and purchase transactions with related parties were conducted under pricing terms similar to those for third parties, for purchases or sales of similar products/services, except those transactions on products/services with special specifications. Settlement terms for other related-party transactions were similar to those for third parties. The Corporation had rented office and network operation center from Systex from January to December 2006. The monthly rent was based on market price and the size of rented area.

#### Financing from related parties

Financing from related party is as follows:

Related Party	2006						
	Maximum Balance	Period	Ending Balance	Interest %	Interest Expense	Interest Payable	Collateral
Kimo BVI	\$ 260,760 (US\$8,000 thousand)	2005.5.12- 2006.5.12	\$ -	3.5%	\$ 2,990	\$ -	None

## 27. ASSETS PLEDGED

The following assets had been pledged as collaterals, performance bonds, provisional seizure, and import duty guarantees:

	December 31	
	2007	2006
Pledged time deposits - current	\$ 182,823	\$ 13,835
Pledged time deposits - noncurrent	<u>96,550</u>	<u>-</u>
	<u>\$ 279,373</u>	<u>\$ 13,835</u>

**28. SIGNIFICANT CONTINGENT LIABILITIES AND COMMITMENTS AS OF DECEMBER 31, 2007**

- a. Unused letters of credit aggregated about \$1,003 thousand.
- b. Outstanding sales contracts amounted to about \$2,883,496 thousand.
- c. There was a guarantee amounting to \$207,290 thousand on the unused bank loans credit lines of Ching Pu Investment Corporation.
- d. A certain company bought Oracle database and related software from the Corporation. The buyer claimed that it did not receive the authorized software document; thus the buyer ended the sales contract and demanded \$16,000 thousand in damages plus legal interest. As of March 7, 2008, the court has ruled in favor of the Corporation.
- e. There were lease contracts for office premises and warehouse, expiring between January 2008 and December 2012, with refundable deposits of \$24,838 thousand. Future rentals due are as follows:

<b>Year</b>	<b>Amount</b>
2008	\$ 86,818
2009	37,545
2010	13,114
2011	4,402
2012	4,402

**29. SEGMENT INFORMATION**

Segment information is presented in the accompanying Table 1.

**TABLE 1**

**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**SEGMENT INFORMATION**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars)

A. Industry information

	2007				2006			
	Sale of Computer Hardware and Software, and Handsets	Services (Note 1)	Others (Note 1)	Total	Sale of Computer Hardware and Software, and Handsets	Services (Note 1)	Others (Note 1)	Total
Sales to customers	\$ 5,617,490	\$ 2,987,550	\$ 72,194	\$ 8,677,234	\$ 2,410,736	\$ 1,005,679	\$ 62,993	\$ 3,479,408
Sales to other segments	-	-	-	-	-	-	-	-
Total sales	<u>\$ 5,617,490</u>	<u>\$ 2,987,550</u>	<u>\$ 72,194</u>	<u>\$ 8,677,234</u>	<u>\$ 2,410,736</u>	<u>\$ 1,005,679</u>	<u>\$ 62,993</u>	<u>\$ 3,479,408</u>
Segment operating income (Note 2)	<u>\$ 176,853</u>	<u>\$ 454,056</u>	<u>\$ 59,027</u>	\$ 689,936	<u>\$ 105,055</u>	<u>\$ 100,219</u>	<u>\$ 59,279</u>	\$ 264,553
Investment income, net (Note 3)				381,523				176,964
Other corporate income				177,045				9,803
Corporate general expenses				(335,088)				(103,842)
Interest expense				(577)				(4,633)
Income before income tax				<u>\$ 912,839</u>				<u>\$ 342,845</u>
Identifiable assets (Note 4)	<u>\$ 3,275,544</u>	<u>\$ 919,367</u>	<u>\$ 35,219</u>	\$ 4,230,130	<u>\$ 823,746</u>	<u>\$ 343,639</u>	<u>\$ 21,525</u>	\$ 1,188,910
Corporate general assets				3,308,040				1,014,303
Long-term investments				<u>9,599,373</u>				<u>1,949,185</u>
Total assets				<u>\$ 17,137,543</u>				<u>\$ 4,152,398</u>
Depreciation and amortization expense	<u>\$ 61,392</u>	<u>\$ 42,693</u>	<u>\$ 19,228</u>		<u>\$ 24,322</u>	<u>\$ 35,611</u>	<u>\$ 636</u>	
Capital expenditures	<u>\$ 49,869</u>	<u>\$ 56,712</u>	<u>\$ 31,139</u>		<u>\$ 23,148</u>	<u>\$ 33,892</u>	<u>\$ 605</u>	

Notes:

- The Corporation's services mainly include VAN services, data processing, computer software services, training services and computer maintenance. Other businesses include computer leasing and miscellaneous items.
- Segment operating income is revenues less costs and operating expenses. Operating expenses include costs and expenses that are directly identifiable to an industry segment, excluding interest expense, investment loss and general and administrative expenses.
- Investment income (loss) is gain or loss from the sale of investments, dividend income, gain or loss on valuation of financial assets, net investment income (loss) recognized under the equity method, and impairment loss on financial assets carried at cost.

(Continued)

4. Identifiable assets represent tangible assets that are used by the industry segment, excluding:

- a. Assets maintained for general corporate purpose.
- b. Financial assets at fair value through profit or loss and available-for-sale financial assets.
- c. Long-term investments.

B. Geographical financial information

No overseas revenue accounted for 10% of the Corporation's total operating revenues.

C. Export sales

For 2007 and 2006, the Corporation's export sales revenue did not reach 10% of the total revenues as reported in the Corporation's income statement.

D. Major customers

For 2007 and 2006, no customer accounted for 10% of the Corporation's total operating revenues.

(Concluded)

**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**PRO FORMA MERGED BALANCE SHEET**  
**DECEMBER 31, 2006**  
(In Thousands of New Taiwan Dollars, Except Par Value)  
(Not Audited)

ASSETS	Amount	%	LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash	\$ 260,174	2	Short-term loans	\$ 140,000	1
Financial assets at fair value through profit or loss - current	1,190,601	8	Commercial paper issued, net	59,884	-
Available-for-sale financial assets - current	62,943	-	Notes payable	153,565	1
Notes receivable, net	139,087	1	Accounts payable	1,261,788	8
Accounts receivable, net	1,454,912	9	Payable to related parties	29,935	-
Lease receivables, net	11,979	-	Income tax payable	24,246	-
Receivables from related parties	113,039	1	Accrued expenses	416,933	3
Other receivables	176,722	1	Other payables	153,278	1
Inventories, net	700,827	4	Receipts in advance	160,658	1
Prepayments	282,850	2	Other current liabilities	59,883	-
Deferred income tax assets - current	136,852	1			
Pledged time deposits - current	238,937	2	Total current liabilities	2,460,170	15
Refundable deposits - current	148,365	1			
Other current assets	6,530	-	<b>OTHER LIABILITIES</b>		
Total current assets	4,923,818	32	Accrued pension cost	87,187	1
			Guarantee deposits received	9,608	-
<b>LONG-TERM INVESTMENTS</b>			Credit balance of long-term investments accounted for by the equity method	453	-
Available-for-sale financial assets - noncurrent	17,720	-		163	-
Financial assets carried at cost - noncurrent	578,777	4	Total other liabilities	97,411	1
Investments accounted for by the equity method	7,773,521	50	Total liabilities	2,557,581	16
Total long-term investments	8,370,018	54	<b>STOCKHOLDERS' EQUITY</b>		
			Capital stock - par value NT\$10	3,199,108	21
<b>PROPERTY AND EQUIPMENT</b>			Capital surplus		
Cost			Additional paid-in capital	9,311,346	60
Land	782,349	5	Treasury stock transactions	213,336	1
Buildings	1,126,599	7	Gain on disposal of property and equipment	4,493	-
Computer equipment	504,592	3	Donation	544	-
Transportation equipment	5,884	-	Total capital surplus	9,529,719	61
Leasehold improvements	129,775	1	Retained earnings		
Other equipment	116,025	1	Legal reserve	163,221	1
Total cost	2,665,224	17	Special reserve	70,929	-
Accumulated depreciation	(751,147)	(5)	Unappropriated earnings	934,949	6
	1,914,077	12	Total retained earnings	1,169,099	7
Prepayments for equipment	100	-	Other equity		
	1,914,177	12	Cumulative translation adjustments	(38,774)	-
Net property and equipment	1,914,177	12	Unrealized gain on financial instruments	82,128	-
			Unrealized revaluation increment	56	-
<b>INTANGIBLE ASSETS</b>			Treasury stock	(834,424)	(5)
Computer software	28,629	-	Total other equity	(791,014)	(5)
Goodwill	39,107	-	Total stockholders' equity	13,106,912	84
Total intangible assets	67,736	-			
<b>OTHER ASSETS</b>					
Assets leased to others	131,965	1			
Assets for disposal, net	18,094	-			
Refundable deposits	63,694	-			
Deferred charges, net	20,869	-			
Long-term lease receivables, net	2,915	-			
Deferred income tax assets - noncurrent	115,361	1			
Pledged time deposits - noncurrent	35,846	-			
Total other assets	388,744	2			
<b>TOTAL</b>	<b>\$ 15,664,493</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 15,664,493</b>	<b>100</b>

**TABLE 3**

**SYSTEX CORPORATION**  
(Formerly Sysware Corporation)

**PRO FORMA MERGED STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2006**  
(In Thousands of New Taiwan Dollars, Except Loss Per Share)  
(Not Audited)

	Amount	%
<b>OPERATING REVENUES</b>		
Sales	\$ 5,729,915	67
Less: Sales returns and allowances	<u>197,019</u>	<u>2</u>
Net sales	5,532,896	65
Service income	2,962,678	35
Others	<u>40,784</u>	<u>-</u>
Total operating revenues	<u>8,536,358</u>	<u>100</u>
<b>OPERATING COSTS</b>		
Cost of goods sold	4,857,082	57
Cost of services	1,234,623	14
Others	<u>8,929</u>	<u>-</u>
Total operating costs	<u>6,100,634</u>	<u>71</u>
<b>GROSS PROFIT</b>	<u>2,435,724</u>	<u>29</u>
<b>OPERATING EXPENSES</b>		
Selling expenses	1,901,967	22
General and administrative expenses	412,528	5
Research and development expenses	<u>238,112</u>	<u>3</u>
Total operating expenses	<u>2,552,607</u>	<u>30</u>
<b>OPERATING LOSS</b>	<u>(116,883)</u>	<u>(1)</u>
<b>NONOPERATING INCOME AND GAINS</b>		
Interest income	7,512	-
Investment income recognized under the equity method, net	191,857	2
Dividend income	38,005	1
Foreign exchange gain, net	5,469	-
Gain on valuation of financial assets, net	88,140	1
Others	<u>29,782</u>	<u>-</u>
Total nonoperating income and gains	<u>360,765</u>	<u>4</u>

(Continued)



	Amount	%
NONOPERATING EXPENSES AND LOSSES		
Interest expense	\$ 4,633	-
Loss on sale of investments	28,794	-
Provision for losses on inventories	28,115	-
Impairment loss on financial assets carried at cost	276,553	4
Others	<u>85,400</u>	<u>1</u>
Total nonoperating expenses and losses	<u>423,495</u>	<u>5</u>
LOSS BEFORE INCOME TAX	<u>(179,613)</u>	<u>(2)</u>
INCOME TAX	<u>27,762</u>	<u>-</u>
NET LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	(207,375)	(2)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES, NET OF TAX	<u>14,668</u>	<u>-</u>
NET LOSS	<u>\$ (192,707)</u>	<u>(2)</u>

**Pre-tax After-tax**

LOSS PER SHARE

Basic loss per share - based on pro forma weighted average number of outstanding shares of 295,117 thousand

Net loss before cumulative effect of accounting changes	\$ (0.61)	\$ (0.70)
Cumulative effect of accounting changes, net of tax	<u>0.05</u>	<u>0.05</u>
	<u>\$ (0.56)</u>	<u>\$ (0.65)</u>

The pro forma information had the parent company's shares held by subsidiaries been treated as an investment instead of treasury stock are shown as follows:

	Pre-tax	After-tax
NET LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	\$ (179,613)	\$ (207,375)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES	<u>14,668</u>	<u>14,668</u>
	<u>\$ (164,945)</u>	<u>\$ (192,707)</u>
BASIC LOSS PER SHARE - BASED ON PRO FORMA WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES OF 319,911 THOUSAND		
Net loss before cumulative effect of accounting changes	\$ (0.56)	\$ (0.65)
Cumulative effect of accounting changes, net of tax	<u>0.05</u>	<u>0.05</u>
	<u>\$ (0.51)</u>	<u>\$ (0.60)</u>

(Concluded)